

STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
DF-46 (REV 08/15)

Fiscal Year 2016-17	Business Unit 0860	Department State Board of Equalization	Priority No. 3
Budget Request Name 0860-003-BCP-DP-2016-GB		Program 0570250 – TRANSPORTATION FUND TAX	Subprogram

Budget Request Description
Joint Operations Center – Ensuring Fuel Tax Compliance

Budget Request Summary

The Board of Equalization (BOE) requests \$296,000 (Federal Funds) in Fiscal Year (FY) 2016-17 and ongoing to permanently establish 2.0 expiring limited term (LT) positions (1.0 Business Taxes Specialist I (BTS I) and 1.0 Business Taxes Specialist II (BTS II)), for continued participation in the Joint Operations Center (JOC) for the National Fuel Compliance Project. Participation in the JOC project has allowed the BOE to leverage state and federal resources to identify evasion, non-reporting and under-reporting. The two positions are set to expire on June 30, 2016 and approval of this proposal will allow the BOE to continue partnership with the federal government and the JOC.

The BOE anticipates an estimated \$1.0 million in revenue from JOC audit leads and investigations.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed	
Does this BCP contain information technology (IT) components? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO	Date
For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the Department of Technology, or previously by the Department of Finance. <input type="checkbox"/> FSR <input type="checkbox"/> SPR Project No. Date:		

If proposal affects another department, does other department concur with proposal? ☐ Yes ☐ No
Attach comments of affected department, signed and dated by the department director or designee.

Budget Officer <i>Maria Arreola</i>	Date 8/28/2015	Chief, Financial Management Division <i>Jo Comer</i>	Date 8/28/15
Deputy Director, Administration <i>Edna Murphy</i>	Date 8/28/2015	Executive Director <i>Christopher Jones</i>	Date 8/31/15

Department of Finance Use Only

Additional Review: ☐ Capital Outlay ☐ ITCU ☐ FSCU ☐ OSAE ☐ CALSTARS ☐ Dept. of Technology

BCP Type: ☐ Policy ☐ Workload Budget per Government Code 13308.05

PPBA <i>[Signature]</i>	Date submitted to the Legislature 1/7/16
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Analysis of Problem

A. Budget Request Summary

The Board of Equalization (BOE) requests \$296,000 (Federal Funds) in Fiscal Year (FY) 2016-17 and ongoing to permanently establish 2.0 expiring limited term (LT) positions ((1.0 Business Taxes Specialist I (BTS I) and 1.0 Business Taxes Specialist II (BTS II)), for continued participation in the Joint Operations Center (JOC) for the National Fuel Compliance Project. The two positions are set to expire on June 30, 2016. Funding for the two positions is from federal project grant money allocated to the participating states. On-going funding of \$100,000 per federal fiscal year has been secured through September 30, 2016, with similar allocations planned for future years. In addition, prior unspent project grant allocations in excess of \$900,000 are available to California and may be used to fully fund the positions. Participation in the JOC project has allowed the BOE to leverage federal resources to identify evasion, non-reporting and under-reporting. Approval of this proposal will allow the BOE to continue the partnership established over the years with the federal government and the growing list of participating states.

The BOE anticipates an estimated \$1.0 million annually in revenue from JOC audit leads and investigations.

B. Background/History

The BOE initially received resources through FY 2007-08 (BCP No. 10) to assist with development and implementation of the JOC project. Due to several implementation delays including lengthy background checks required for the BOE auditors, as well as the time required to format data, the project remained in the development/implementation phase. These positions were subsequently extended in FY 2010-11 (BCP No. 5) for a 3-year limited term in order to transition from the development/implementation phase to the operational phase. During the 2013-14 (BCP No. 3) budget process, the BOE received limited term funding of 2.0 positions that are set to expire on June 30, 2016. Approval of this proposal will allow the BOE to continue its partnership with the federal government and participating states.

The JOC project combines staff, data, and expertise from both federal and state governments to effectively identify fuel taxes under-reporting, non-reporting and trends leading to evasion. These pooled resources provide benefits to both state and federal fuel tax compliance efforts. Combining federal and state government staff's skills and abilities increases each participant's ability to address fuel tax compliance issues more effectively.

The JOC project has established a National Data Center in the Washington D.C. area. The National Data Center is receiving and combining data sets, which continue to increase with the addition of each new state government, from federal, state and third party sources. Sophisticated analytical tools are applied to the data sets to identify anomalies, inconsistencies and omissions in the data, and generate leads for JOC audit teams to follow-up on in the field. There are currently 9 states participating in the JOC.

Now that the National Data Center is operational, the JOC audit teams, combining state and federal resources to conduct joint audits and investigations, are being formed and are receiving cross-training to be able to work at both the state and federal level.

Pursuant to the Memorandum of Understanding (MOU), California has committed 2.0 positions to work full-time with the JOC project. The BOE staff has assisted in the development and implementation of the National Data Center, integrating California data into the National Data Center's databases, received training with the analytical software and other tools being employed in the data center, and developed data analytic routines to compare and extract data that may be beneficial to the BOE's administration of the state's fuel tax programs. Staff has also received training in federal and other states law and audit techniques, and provided similar training in California law and procedures in preparation for conducting joint audits and examinations.

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Analysis of Problem

Resource History (Dollars in thousands)

Program Budget	PY - 4	PY - 3	PY - 2	PY - 1	PY
Authorized Expenditures	300	300	300	300	300
Actual Expenditures	123	139	136	82	138
Revenues					
Authorized Positions	2	2	2	2	2
Filled Positions	2	2	2	2	2
Vacancies	0	0	0	0	0

Workload History

Workload Measure	PY - 4	PY - 3	PY - 2	PY - 1	PY
JOC Leads Billed	\$336	\$7,037	\$68	\$183	\$0*
*Investigations are currently in process involving imported fuel.					

C. State Level Considerations

The BOE collects taxes, fees, and surcharges that provide over 30 percent of the annual revenue for state government and essential funding for counties, cities, and special taxing districts. In FY 2013-14, the BOE administered taxes and fees that produced \$60.4 billion for education, public safety, transportation, housing, health services, social services, and natural resource management. The BOE administers the state's sales and use, fuel, alcohol, tobacco, and other taxes, and collects fees that fund specific programs. More than one million businesses are registered with the agency.

The BOE collects the motor fuel taxes which are deposited in the Motor Vehicle Fuel Account with subsequent transfer to the Transportation Tax Fund and other smaller funds. The bulk of the revenue is used to support the state's transportation system. Approval of this proposal will assist with the analysis of JOC project data and help ensure fuel tax compliance.

In recent years, the motor fuel reporting system at both the state and national level has moved forward rapidly to provide electronic transactions reporting. On a state level, California has developed and is already using systems to receive and analyze California data. This proposal takes advantage of rapidly expanding national fuel tax reporting by providing a national perspective to fuel tax compliance.

Approval of this proposal will also allow the Internal Revenue Service (IRS) to share fuel tax information with California. Other states and the federal government will also benefit from the proposal. The BOE, as a leader in fuel tax administration, can continue to work with these entities to improve fuel tax compliance and to deter tax evasion.

This proposal is consistent with the BOE's mission to serve the public through fair, effective, and efficient tax administration. Specifically, this proposal is consistent with the BOE's Strategic Plan 2010-2015 Goal 2: Maximizing Voluntary Compliance and Goal 4: Enhancing Operational Effectiveness. It is a 100% federally funded project that has directly and indirectly provided additional tax revenues for improvement of California's highway system at no cost to the state.

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D. Justification

Approval of this proposal will result in staff's continued participation in the JOC project which will ensure fuel tax compliance. By continuing participation in the JOC project, California will benefit when staff identifies non-compliance or under-reporting within California and when federal non-compliance is identified. California receives approximately 10% of all federal fuel tax revenues apportioned to the states for transportation projects. The identification of non-compliance on both the state and federal level ensures that the state protects its own revenue base and safeguards the federal fuel tax revenue stream designated for transportation projects.

This proposal will allow staff to continue participation in data analytics under the direction of the National Data Center, and participate in joint audits and examinations resulting from leads generated by the National Data Center. Without these resources, the BOE will not maximize its operational effectiveness or leverage the use of federal funds. Currently, the BOE estimates this proposal will generate an additional \$1 million annually in revenue for the State of California.

If termination of federal funds occurs, the BOE would prepare a negative Budget Change Proposal (BCP).

E. Outcomes and Accountability

Projected Outcomes

Workload Measure	CY	BY	BY+1	BY+2	BY+3	BY+4
JOC Leads Billed	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000

F. Analysis of All Feasible Alternatives

Alternative 1 - The BOE requests authority to expend \$296,000 in federal funds in FY 2016-17 and on-going¹ to permanently establish 2.0 positions for the JOC project. See Exhibit I (page 7) for workload justification.

Alternative 1 requests approval of these positions that will allow permanent participation in the JOC project to ensure fuel tax compliance. Staff will continue to conduct joint audits and investigations. If termination of federal funding occurs, the BOE would prepare a negative Budget Change Proposal (BCP).

Pros:

- No General Fund impact.
- Provides \$296,000 per year in federal funding earmarked for intergovernmental tax compliance initiatives to protect and enhance California highway tax revenue.
- Leverages other state and federal resources to identify evasion, non-reporting and under-reporting of California fuel tax.
- Recovers under-reported fuel taxes for California through the auditing and billing of non-compliant California taxpayers.
- Recovers California's share of federal revenue realized through the auditing and billing of non-compliant federal taxpayers.

¹ BOE has secured annual federal grant funding of \$100,000 per federal fiscal year through September 30, 2016. In addition, BOE has prior unspent project grant allocations in excess of \$900,000.

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- Provides for more efficient management and enforcement of the Motor Vehicle Fuel Tax Law and Diesel Fuel Tax Law and benefits honest taxpayers by providing another mechanism to assist the BOE and the federal government to maintain a level of fuel tax playing field.
- Provides for the early identification of non-compliant taxpayers and newly emerging tax evasion schemes.

Cons:

- Reduces funds available for other intergovernmental compliance proposals received by Federal Highway Administration (FHWA).
- Requires a negative BCP if federal funds are terminated.

Alternative 2 - The BOE requests authority to expend \$296,000 in federal funds in FY 2016-17, FY 2017-18 and FY 2018-19² to continue 2.0 positions on a 3-year limited term basis for the JOC project. See Exhibit I (page 7) for workload justification.

Alternative 2 requests approval of these positions that will allow participation in the JOC project on a 3-year limited term basis to ensure tax compliance. Staff will continue to conduct joint audits and investigations.

Pros:

- No General Fund impact.
- Provides \$296,000 per year in federal funding earmarked for intergovernmental tax compliance initiatives to protect and enhance California highway tax revenue.
- Leverages other state and federal resources to identify evasion, non-reporting and under reporting of California fuel tax.
- Recovers under-reported fuel taxes for California through the auditing and billing of non-compliant California taxpayers.
- Recovers California's share of federal revenue realized through the auditing and billing of non-compliant federal taxpayers.
- Provides for more efficient management and enforcement of the Motor Vehicle Fuel Tax Law and Diesel Fuel Tax Law and benefits honest taxpayers by providing another mechanism to assist the BOE and the federal government to maintain a level fuel tax playing field.
- Provides for the early identification of non-compliant taxpayers and newly emerging tax evasion schemes.

Cons:

- Reduces funds available for other intergovernmental compliance proposals received by Federal Highway Administration (FHWA).
- Requires biennial rotation of fully trained staff in and out of the limited term positions to meet the two-year limitation on limited term assignments.
- Temporarily meets the needs of the JOC project.

Alternative 3 - Do not provide authority to expend \$296,000 in federal funds.

Alternative 3 does not meet the current needs of the JOC project.

Pros:

- No General Fund impact.
- The FHWA funds currently being received by the BOE can be reallocated by FHWA to other states' intergovernmental compliance proposals received by FHWA.

² BOE has secured annual federal grant funding of \$100,000 per federal fiscal year through September 30, 2016. In addition, BOE has prior unspent project grant allocations in excess of \$900,000.

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Cons:

- Eliminates the 2.0 limited term positions for the JOC Project.
- Turns down \$300,000 per year in federal funding earmarked for intergovernmental tax compliance initiatives to protect and enhance California highway tax revenue.
- Does not leverage other state and federal resources to identify evasion, non-reporting and under-reporting of California fuel tax.
- Reduces the state's ability to recover under-reported fuel taxes for California through the auditing and billing of non-compliant California taxpayers.
- Places at risk California's share of federal revenue realized through the auditing and billing of non-compliant federal taxpayers.
- Reduces the ability for the early identification of non-compliant taxpayers or newly emerging fuel tax evasion schemes.
- Does not allow California to benefit from the expertise of other states and the Internal Revenue Service in analyzing data and performing audits.

G. Implementation Plan

July 2016 and ongoing

- Continue to conduct joint federal/state audits and investigations.
- Track and evaluate program activities and impact of operations.

H. Supplemental Information

None

I. Recommendation

Alternative 1 is recommended.

The BOE requests authority to expend \$296,000 in federal funds per year starting in FY 2016-17 through 2018-19 to permanently continue 2.0 expiring LT positions in the JOC project. Approval of this proposal will meet the current needs of the JOC project and increase fuel tax compliance throughout the nation. California will benefit when staff identifies non-compliance within California and when federal non-compliance is identified. California receives approximately 10% of all federal fuel tax revenues apportioned to the states for transportation projects.

BCP Fiscal Detail Sheet

BCP Title: Joint Operations Center - Ensuring Fuel Tax Compliance

DP Name: 0860-003-BCP-DP-2016-GB

Budget Request Summary

	FY16					
	CY	BY	BY+1	BY+2	BY+3	BY+4
Positions - Permanent	0.0	2.0	2.0	2.0	2.0	2.0
Total Positions	0.0	2.0	2.0	2.0	2.0	2.0
Salaries and Wages						
Earnings - Permanent	0	156	156	156	156	156
Total Salaries and Wages	\$0	\$156	\$156	\$156	\$156	\$156
Total Staff Benefits	0	71	71	71	71	71
Total Personal Services	\$0	\$227	\$227	\$227	\$227	\$227
Operating Expenses and Equipment						
5301 - General Expense	0	5	5	5	5	5
5304 - Communications	0	2	2	2	2	2
5320 - Travel: Out-of-State	0	14	14	14	14	14
5320 - Travel: In-State	0	18	18	18	18	18
5322 - Training	0	2	2	2	2	2
5324 - Facilities Operation	0	23	23	23	23	23
5344 - Consolidated Data Centers	0	5	5	5	5	5
Total Operating Expenses and Equipment	\$0	\$69	\$69	\$69	\$69	\$69
Total Budget Request	\$0	\$296	\$296	\$296	\$296	\$296

Fund Summary

Fund Source - State Operations						
0890 - Federal Trust Fund	0	296	296	296	296	296
Total State Operations Expenditures	\$0	\$296	\$296	\$296	\$296	\$296
Total All Funds	\$0	\$296	\$296	\$296	\$296	\$296

Program Summary

Program Funding						
0570250 - Transportation Fund Tax Program	0	296	296	296	296	296
Total All Programs	\$0	\$296	\$296	\$296	\$296	\$296

Personal Services Details

Positions	Salary Information			<u>CY</u>	<u>BY</u>	<u>BY+1</u>	<u>BY+2</u>	<u>BY+3</u>	<u>BY+4</u>
	Min	Mid	Max						
4379 - Bus Taxes Spec II (Eff. 07-01-2016)				0.0	1.0	1.0	1.0	1.0	1.0
4380 - Bus Taxes Spec I (Eff. 07-01-2016)				0.0	1.0	1.0	1.0	1.0	1.0
Total Positions				0.0	2.0	2.0	2.0	2.0	2.0
Salaries and Wages	CY	BY	BY+1	BY+2	BY+3	BY+4			
4379 - Bus Taxes Spec II (Eff. 07-01-2016)	0	81	81	81	81	81			
4380 - Bus Taxes Spec I (Eff. 07-01-2016)	0	75	75	75	75	75			
Total Salaries and Wages	\$0	\$156	\$156	\$156	\$156	\$156			
Staff Benefits									
5150350 - Health Insurance	0	25	25	25	25	25			
5150500 - OASDI	0	12	12	12	12	12			
5150630 - Retirement - Public Employees - Miscellaneous	0	32	32	32	32	32			
5150750 - Vision Care	0	1	1	1	1	1			
5150800 - Workers' Compensation	0	1	1	1	1	1			
Total Staff Benefits	\$0	\$71	\$71	\$71	\$71	\$71			
Total Personal Services	\$0	\$227	\$227	\$227	\$227	\$227			